

COUNTY OF SAN BERNARDINO
CALIFORNIA
SOLID WASTE MANAGEMENT DIVISION
ACCOUNTS RECEIVABLE CASH HANDLING
PROCEDURES
FOR THE PERIOD ENDING MARCH 29, 2006

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
September 5, 2007

**County of San Bernardino
Solid Waste Management Division**

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September 5, 2007

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County of San Bernardino
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**SUBJECT: INTERNAL AUDITOR'S REPORT ON ACCOUNTS RECEIVABLE,
CASH HANDLING PROCEDURES, AND FOLLOW UP ON PRIOR
MANAGEMENT LETTER FOR THE PERIOD ENDED JUNE 30, 2005**

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter, County Policy 04-01, and the Board of Supervisor's Policy Statement on Internal Operational Auditing, Chapters 3, 8, 9, and 14 of the Internal Controls and Cash Standards Practice Manual, we conducted an audit of the Solid Waste Management Division (SWMD) accounts receivables procedures for the period ending March 29, 2006.

Background.

The SWMD accounts receivable as of March 29, 2006 were valued at over \$5,157,000, for accounts with a balance of over \$100,000. The collections for the accounts receivable, for January through February 2006, were over \$8,237,000. SWMD uses both the County Financial Accounting System and Solomon (a Microsoft accounting system used by SWMD) to record accounts receivable data. A November 10, 2005, letter to SWMD management from Vavrinek, Trine, Day & Co, noted several deficiencies in internal controls for accounts receivables processing.

Scope of Audit

Our overall objective was to determine whether SWMD was effectively and efficiently managing accounts receivable. Specifically, whether:

- Accounts receivable payments were properly processed.
- Accounts receivable were billed and collected timely.
- Policies and procedures used were documented.
- Solomon accounting system was properly used.

To accomplish our objective we reviewed: (1) the accounts receivable records from January through March 2006, (2) policies and procedures used to process accounts receivable, and (3) interviewed operating personnel. Our review included a judgmental sample of 33 accounts receivable transactions, for January and February 2006, each valued at over \$100,000, totaling over \$8.2 million to determine the timeliness of processing collections. We also followed-up on the management letter issued by Vavrinek, Trine, Day & Co. dated November 10, 2005, to determine whether the recommendations had been implemented.

We conducted our audit according to the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and the provisions of the San Bernardino County Internal Controls and Cash Standard Practice Manual.

A draft report was sent to the Department on June 22, 2007. The department's responses to our recommendations are included in this report.

Conclusion

We determined SWMD was not effectively or efficiently managing accounts receivable. Specifically:

- Accounts receivable payments were not properly processed.
- Accounts receivable were not billed and collected timely.
- Policies and procedures used were not documented.
- Solomon accounting system was not properly used.

Also, we noted some deficient internal controls remained unchanged, although the November 10, 2005, Vavrinek, Trine, Day & Co. letter to management had recommended changes to the internal controls, and SWMD management had agreed to implement corrective actions.

Findings and Recommendations

Finding 1: Checks were not deposited or endorsed upon receipt.

County of San Bernardino Internal Controls and Cash Manual, Chapter 7, requires the deposit of all monies collected at least weekly, and Chapter 3 requires the use of a restrictive endorsement stamp on all checks and money orders as soon as received.

Our review disclosed checks were neither deposited in a timely manner, nor properly safeguarded with restrictive endorsement stamps. Eleven (34 percent) of the 32 deposits reviewed for the period of January and February 2006, valued at over \$2.3 million, were deposited from 7 to 13 days after receipt, see Attachment 1. Operating personnel at SWMD were aware of the County policies but stated their practice was to hold checks until a review and match could be made to a specific invoice or credit billing. SWMD had been made aware of these late deposits in the letter from Vavrinek, Trine, Day & Co. The delay in deposits, based on the San Bernardino County Treasury pool average of 4 percent interest rate, has been estimated to cost the County of San Bernardino over \$494 per month, or \$5,925 per year. Further, the lack of immediately putting a restrictive endorsement on the on checks limits the safeguard of the checks, for both the issuer and the intended receiver.

Recommendation

Solid Waste Management Division (SWMD) Director should ensure operating personnel handling checks deposit at least weekly after receipt, and apply a restrictive endorsement on all checks the day of receipt. Further, the SWMD Director should periodically verify personnel are complying with County of San Bernardino Internal Controls and Cash Manual.

Department Response

"The SWMD agrees with the auditor's recommendation and implemented revised office procedures on August 29, 2007 to apply a restrictive endorsement on all checks the day of receipt and to deposit checks within a week after receipt."

Auditor's Response

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 2: Accounts receivable were not billed or collected timely.

County of San Bernardino Internal Controls and Cash Manual, Chapter 14, requires a department to maintain accounts receivables when amounts owed for County services are not paid upon the rendering of the service. If the customer does not pay the amount due, the department must take appropriate action to collect the amount due, or obtain assistance from the County's Central Collection function.

Debts owed to the County of San Bernardino, for solid waste services, should be recorded, billed, and collected on a timely bases, to reduce financial burdens for the County of San Bernardino. Also, the County of San Bernardino Internal Controls and Cash Manual, August 2005, Chapter 14, states "The department must take appropriate action under the provision of the applicable law or judgment to obtain payment. For assistance in recovering the money, department may use the County's collection function."

Our review showed the accounts receivable balances as of March 29, 2006, were for services from 60 days to over two and one half years ago. We reviewed accounts receivable balances of \$100,000 or more, as of March 29, 2006, which totaled over \$5 million (78 percent of the total accounts receivable), and noted 8 of the accounts were for services dating back to the period of Feb 2004 - December 2005, see Attachment 2. Also, over \$90,000 for services provided in October 2004 should have been listed in the allowance for doubtful accounts due and not included as active accounts receivable in the financial records."

Operating personnel stated, generally, billings are done monthly, for the previous month. Billings for services were from 30 to 60 days after services were provided. For example, services rendered in January 1 were billed in March (60 days later). However, the lack of timely billings, such as biweekly, and aggressive collection efforts are potentially costing San Bernardino County a minimum of \$10,940 in lost interest monthly for carrying (financing) customer debts.

Recommendations

SWMD Director should establish, and implement a policy to bill accounts receivable no later than two weeks after services are rendered.

The SWMD Director should refer all debts over 90 days old to Central Collections.

The SWMD Director should establish an allowance for doubtful accounts, and adjust the financial records accordingly.

Finding 2: Accounts receivable were not billed or collected timely. - Continued

Department Response

"Effective September 2007, SWMD will implement a policy and procedures to bill accounts no later than the twentieth day after the month of service.

By December 31, 2007, the SWMD will research contractual terms and conditions of account holders to determine viability of referring active delinquent accounts to Central Collections. By December 31, 2007, the SWMD agrees to research and refer inactive delinquent accounts to Central Collections.

By March 31, each fiscal year, SWMD will review delinquent accounts for doubtfulness of collection. If determined to be uncollectible, SWMD will process a "Discharge From Accountability" to the ACR. Upon the ACR's approval, SWMD will adjust its financial records accordingly."

Auditor's Response

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Finding 3: There were no formal documented policies and procedures for processing accounts receivable, and duties were not properly segregated.

County of San Bernardino Policy Manual 04-01 states County organizations should develop policies and procedure manuals stating how department unique operations should be accomplished.

County of San Bernardino Internal Controls and Cash Manual, August 2005, Chapter 14, states duties of posting, collecting, and recording receipts of accounts receivable are to be segregated.

The SWMD fiscal division did not have a written policy and procedures manual for all of its accounts receivable functions. SWMD had been made aware of this condition in a letter from Vavrinek, Trine, Day & Co, on November 10, 2005, and they agreed to take corrective actions. The SWMD fiscal services manager and operating personnel stated they practiced controls as recommended in the Standard Practice Manual - Internal Controls and Cash Manual; however, our audit disclosed non-compliance of six different chapters and 17 issues, of the manual. The lack of policy and procedure manuals precludes operating personnel knowledge of how operations are to be conducted and managements' goals and objectives.

Finding 3: There were no formal documented policies and procedures for processing accounts receivable, and duties were not properly segregated. - *Continued*

Based on staff inquiry, and our observations, accounts receivable processing duties were not segregated. For example, one individual received payments, issued receipts, and approved transactions, and one individual reconciled receipts to deposits, prepared deposits, and maintained accounts receivable. The overall effect of this control weakness is the increase of risk that an employee could perpetrate, conceal errors and irregularities in the normal course of his/her duties without being detected.

Recommendations

SWMD Director should establish and implements a policy and procedures manual for their accounts receivable functions. Also, the SWMD Director should ensure all employees are knowledgeable of the policies and procedures.

SWMD Director should segregate accounts receivable duties; ensuring no one individual receives payments, issues receipts, approves transactions, prepares deposits, or reconciles receipts to deposits. are segregated.

Department Response

"SWMD Support Services Section is in the process of developing its Policy and Procedures Manual. The draft Manual has been reviewed by the ACR. The ACR's comments and/or revisions will be incorporated. The SWMD Support Services will focus on finishing the Fiscal Services Accounts Receivables section of the manual by January 31, 2008.

SWMD's Fiscal Unit has reassigned duties and responsibilities of staff to ensure accounts receivable functions are segregated and no one individual is responsible for multiple steps in the process."

Auditor's Response

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Finding 4: The Solomon accounting system is not used in its entirety nor is it used properly.

The SWMD uses several information systems for processing business transactions. The primary systems used are Solomon (a Microsoft business system) and Financial

Finding 4: The Solomon accounting system is not used in its entirety nor is it used properly. - *Continued*

Accounting System (FAS), which the County uses for processing most of the County financial transactions.

Based on staff interviews and observations, we noted Solomon was not being used in its entirety; only a portion of the accounts receivable module was being used. Also, the general ledger portion of the system was not used. This resulted in inconsistent financial information in Solomon and FAS. For example, contract franchise fees of \$1.9 million were not posted to the Solomon system, but were recorded in FAS. Further, year-end financial data in Solomon (actual data as of June 24) was reported to FAS as June 30 data, resulting in underreporting of revenue.

This has occurred because portions of Solomon were not used, or operated, and operating personnel stated they had not been trained to use all elements of the Solomon system.

Recommendation

SWMD Director ensure the Division uses the Solomon accounting system to its maximum capacity, including the entire General Ledger.

SWMD should ensure that the Division uses the Solomon accounting system to its maximum capacity; including posting and recording all accounts receivables.

Department Response

"By June 30, 2008, SWMD will explore the staffing requirements and functionality of the Solomon system to determine if the system's full capacity will provide any financial/accounting benefits beyond the use of FAS' General Ledger.

By June 30, 2008, SWMD will explore the use of the Solomon system to post and record all accounts receivables."

Auditor's Response

The Department's response addresses planned actions to correct deficiencies noted in the finding. However, delays in corrective action may result in large amounts, \$1.9 million noted in the finding, of incomplete or incorrect data on the financial statements.

Peter H. Wulfman, Division Manager
Solid Waste Management Division
September 5, 2007
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Respectfully submitted,

LARRY WALKER
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By:

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Deposits over \$100,000 Reviewed, for January 1 to February 28, 2006

<u>VENDOR</u>	<u>DATE RECEIVED</u>	<u>DATE DEPOSITED</u>	<u>EXCESS DAYS</u>	<u>AMOUNT</u>	<u>INTEREST LOSS</u>
Cal Disposal	1/5/2006	1/12/2006	1	\$122,846	\$14
Jack's Disposal	1/6/2006	1/17/2006	2	\$154,399	\$35
Algonquin Power Systems	1/10/2006	1/24/2006	7	\$185,000	\$144
Burrtec Waste	1/11/2006	1/23/2006	5	\$423,165	\$235
Algonquin Power Systems	1/31/2006	2/7/2006	1	\$185,000	\$21
Empire Disposal	1/30/2006	2/6/2006	1	\$101,548	\$11
Jack's Disposal	1/30/2006	2/6/2006	1	\$150,804	\$17
Best Way Disposal	2/13/2006	2/24/2006	4	\$113,909	\$51
Robertsons	2/9/2006	2/23/2006	13	\$291,822	\$422
City of Victorville	2/23/2006	3/7/2006	12	\$192,505	\$257
Norcal waste	1/3/2006	1/12/2006	8	<u>\$475,000</u>	<u>\$422</u>
Totals				\$2,395,993	\$988

Interest loss: Amount times 4 percent, divided by 360 days, times number of excess days.

Estimate of Annual Interest Lost: Total interest lost divided by 2 months (equals \$494 per month), times 12 months equals \$5925 per year.

Attachment 1

Accounts Receivable over \$100,000 Reviewed, as of March 29, 2006

Vendor	Total Balance As of 3/29/06	3/29/06 Balance Amount for Jan 06 Service	3/29/06 Balance Amount for 10/03-12/05 Svc	Earliest Service Date
CITY OF SAN BERNARDINO	\$126,649	\$126,649	\$0	Jan 2006
RIALTO RUBBISH SERVICE	\$279,188	\$279,188	\$0	Jan 2006
JACK'S DISPOSAL SERVICE	\$154,858	\$154,858	\$0	Jan 2006
COLTON DISPOSAL	\$263,626	\$263,626	\$0	Jan 2006
SAN BERNARDINO CITY PUBLIC SERVICE	\$228,082	\$228,082	\$0	Jan 2006
WEST VALLEY LLC	\$1,801,227	\$860,423	\$940,804	Jan 2004
FONTANA RUBBISH COLLECTORS	\$181,335	\$181,335	\$0	Jan 2006
YUCAIPA DISPOSAL INC	\$104,549	\$104,549	\$0	Jan 2006
VICTORVILLE DISPOSAL INC	\$113,063	\$113,063	\$0	Jan 2006
CITY OF VICTORVILLE	\$377,268	\$215,624	\$161,644	Dec 2005
CITY OF APPLE VALLEY	\$129,578	\$129,578	\$0	Jan 2006
EMF- CODE ENFORCEMENT	\$102,392	\$102,392	\$0	Jan 2006
HI DESERT DISPOSAL	\$118,457	\$118,457	\$0	Jan 2006
ADVANCE DISPOSAL & RECYCLE MRF	\$437,231	\$190,090	\$247,141	Nov 2005
BIG BEAR CITY CSD	\$154,593	\$27,371	\$127,222	Sep 2005
BF -TAYLOR INDUSTRIES	\$120,901	\$0	\$120,901	Feb 2004
BURR TEC-ARTICLE 20	\$339,823	\$186,744	\$153,079	Aug 2005
FIRE DEBRIS	<u>\$124,895</u>	<u>\$0</u>	<u>\$124,895</u>	May 2004
Total	\$5,157,715	\$3,282,029	\$1,875,686	

Notes:

1. The accounts receivable reviewed (balances at the end of Mar 2006) were for services from three months (Jan 2006) to over two years ago (Oct 2003).
2. The accounts receivables over three months old (for services from 10/03 – 12/05, equaling \$1,875,686) are costing the County (at 4 percent) interest of over \$6,252 each month they remain uncollected.
3. The accounts receivable for Jan 2006 (\$3,282,029), are two months behind in collection and are costing the County (at 4 percent) interest of over \$10,940 each month they remain uncollected.